

KENTUCKY ECONOMIC INDICATORS

July Indicators as of September 28, 2004

KY Composite Index of Leading Indicators decreased 5.0 percent for July.

- The Leading Index decreased for the second time this year.
- The Leading Index rose by 1.3 percent over the same month last year.
- Component indicators were mostly negative, losers over gainers 4:1.
 - KY Labor Intensity Index decreased 3.2 percent.
 - The US Leading Index decreased 3.0 percent.
 - The Index of KY Initial Claims decreased 10.4 percent.
 - + US Retail Sales increased 9.7 percent.
 - The Louisville Help Wanted Index decreased by 6 points to 45.

Component weights for July are 49.50, 23.58, 14.79, 10.43, and 1.70 respectively.

KY Composite Index of Coincident Indicators increased 4.6 percent for July.

- The Coincident Index increased for the sixth time this year.
- Same-month-last-year growth is positive for the twelfth consecutive month at 2.6 percent.
- All component indicators were positive for July.
 - + KY Total Nonagricultural Employment increased 4.1 percent.
 - + US Industrial Production Index increased 7.6 percent.
 - + US Personal Income Less Transfers increased 3.8 percent.

Component weights for July are 31.55, 29.42, and 28.51 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

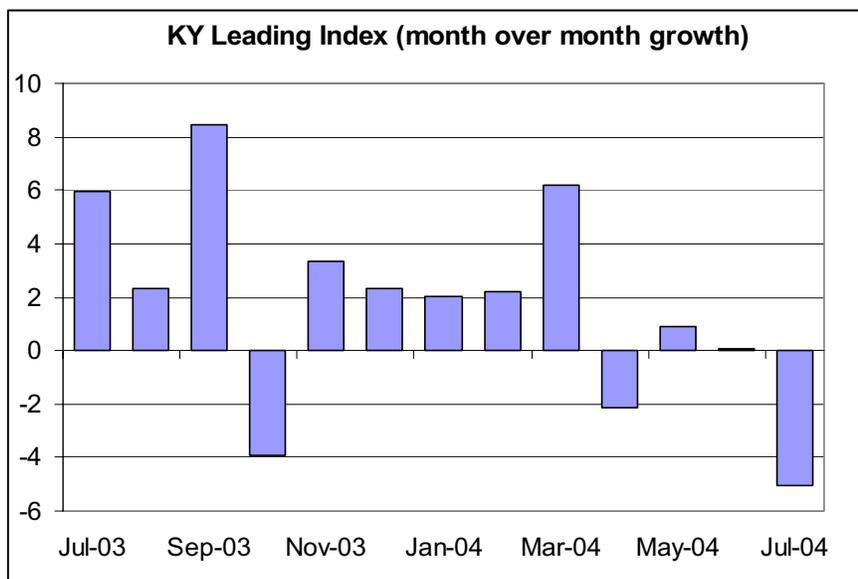
The Kentucky Leading Index fell half a point in July, wiping out most of the gains made since the beginning of the year. All three Kentucky components of the Leading Index fell this month. The Kentucky Intensity Index carries the most weight in the Leading Index, nearly 50 percent, and therefore has tremendous impact when it moves strongly in one direction. The moderate decline in the Kentucky Labor Intensity Index is primarily due to a loss of 3,400 workers in Fabricated Metals, Rubber and Plastic Products and Transportation Equipment. Employment in Wood Products increased by 100 workers for July. Employment in Chemical Products remained unchanged for July. The employment declines were accompanied by moderate declines in the Average Weekly Hours Worked in Rubber and Plastics, Transportation Equipment and Wood Products.

Classically speaking, employment and average weekly hours follow a predictable pattern during a recovery period. When signs of recovery appear, employers respond by extending hours worked by their existing employees. If the recovery persists, then employers reduce the overtime granted and hire new workers. Average Weekly Hours decline to their baseline level and employment increases. Average Weekly Hours for the group of manufacturing industries in the Kentucky Labor Intensity Index have risen several times in the past two years. This has not yet led to an increase in employment. This may indicate that employers have yet to see the clear signs of recovery or are receiving mixed signals about the economy. US Retail Sales between March and July have been quite erratic, may have caused some employers to question the strength of the recovery in their respective industries.

Unemployment Insurance claims were up both nationally and statewide for July. The Kentucky Index of Initial Claims has two components: Kentucky First Pays and US Initial Claims. Kentucky First Pays are those individual who are in their first week of Unemployment Insurance payments. Kentucky First Pay claims increased by 2.2 percent for July, while US Initial Claims increased by 23.8 percent for July. National claims heavily influenced the Kentucky Leading Index this month. The US Leading Index fell moderately for July, while US Retail Sales for July bounced up. US Retail Sales increased considerably; enough to completely offset the large loss in June.

Kentucky Nonagricultural employment increased moderately in July. Adjusting for labor market movements, it appears that the non-manufacturing sectors are absorbing the losses in the manufacturing sector. Both non-manufacturing and manufacturing employment experienced declines during the last three years. Recently, other sectors have begun hiring to offset the losses in manufacturing.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research Kentucky Annual Economic Report, 2000.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.state.ky.us.

Office of State Budget Director

*Room 284, Capitol Annex
Phone: 502-564-7300 - taj@mail.state.ky.gov*

Frankfort, Kentucky 40601-3453

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2003

2004

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL |
|-------------------------------------|---------|---------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| KY Leading Index (1992=100) | 110.8 | 111.0 | 111.7 | 111.4 | 111.7 | 111.9 | 112.1 | 112.3 | 112.8 | 112.6 | 112.7 | 112.7 | 112.2 |
| % Chg Previous Month SAAR | 5.9 | 2.3 | 8.4 | -3.9 | 3.3 | 2.3 | 2.0 | 2.2 | 6.2 | -2.2 | 0.9 | 0.1 | -5.0 |
| % Chg Same Month Last Year | -0.1 | 0.3 | 1.4 | 1.0 | 1.1 | 1.5 | 1.5 | 1.8 | 2.7 | 2.6 | 2.5 | 2.3 | 1.3 |
| KY Coincident Index (1992=100) | 127.9 | 128.1 | 128.4 | 128.8 | 129.4 | 129.5 | 129.9 | 130.1 | 130.1 | 130.5 | 130.9 | 130.8 | 131.3 |
| % Chg Previous Month SAAR | 2.5 | 1.4 | 3.4 | 3.2 | 6.3 | 1.0 | 3.2 | 2.4 | 0.1 | 3.5 | 3.6 | -0.7 | 4.6 |
| % Chg Same Month Last Year | -0.1 | 0.1 | 0.5 | 0.8 | 1.3 | 1.6 | 1.7 | 1.9 | 2.0 | 2.5 | 2.6 | 2.5 | 2.6 |
| KY Nonag Employment (000s) | 1,775.3 | 1,779.6 | 1,782.7 | 1,785.2 | 1,786.4 | 1,785.7 | 1,793.4 | 1,788.2 | 1,788.1 | 1,788.1 | 1,788.4 | 1,792.0 | 1,798.0 |
| % Chg Previous Month SAAR | -3.3 | 2.9 | 2.1 | 1.7 | 0.8 | -0.5 | 5.3 | -3.4 | -0.1 | 0.0 | 0.2 | 2.4 | 4.1 |
| % Chg Same Month Last Year | -0.9 | -0.4 | -0.2 | -0.2 | -0.2 | -0.2 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.7 | 1.3 |
| KY Mfg Employment (000s) | 264.9 | 265.2 | 265.1 | 266.2 | 265.8 | 266.1 | 266.9 | 265.8 | 265.8 | 264.1 | 264.5 | 264.5 | 259.3 |
| % Chg Previous Month SAAR | -1.3 | 1.4 | -0.5 | 5.1 | -1.8 | 1.4 | 3.7 | -4.8 | 0.0 | -7.4 | 1.8 | 0.0 | -21.2 |
| % Chg Same Month Last Year | -3.5 | -3.0 | -2.3 | -2.3 | -2.0 | -1.5 | -1.0 | -1.2 | -0.6 | -0.7 | -0.4 | -0.3 | -2.1 |
| KY Unemployment Rate (%) | 6.6 | 6.2 | 6.2 | 6.0 | 6.0 | 6.0 | 5.3 | 5.3 | 5.5 | 5.4 | 5.4 | 5.5 | 5.3 |
| KY Index of Initial UI Claims | 99.9 | 100.2 | 100.1 | 101.2 | 101.2 | 101.3 | 101.7 | 101.4 | 102.4 | 102.3 | 102.4 | 102.7 | 101.7 |
| % Chg Previous Month SAAR | 8.3 | 3.7 | -1.4 | 13.4 | 0.3 | 1.1 | 5.4 | -3.8 | 12.5 | -1.0 | 1.5 | 2.8 | -10.4 |
| % Chg Same Month Last Year | -0.9 | -0.2 | 0.7 | 1.6 | 0.8 | 2.6 | 1.8 | 1.7 | 3.5 | 3.6 | 3.2 | 3.4 | 1.8 |
| KY Labor Intensity Index (1992=100) | 104.2 | 104.3 | 104.4 | 104.4 | 104.6 | 104.3 | 104.8 | 104.7 | 104.6 | 104.7 | 104.5 | 104.4 | 104.1 |
| % Chg Previous Month SAAR | 2.9 | 0.9 | 1.2 | -0.4 | 3.4 | -3.4 | 5.0 | -0.5 | -1.0 | 1.0 | -2.6 | -0.9 | -3.2 |
| % Chg Same Month Last Year | -0.9 | -0.8 | -0.7 | -0.7 | -0.1 | -0.6 | 0.1 | 0.2 | 0.7 | 0.7 | 0.4 | 0.4 | -0.1 |
| Louisville HWI (1992=100) | 50.0 | 47.0 | 73.0 | 50.0 | 49.0 | 57.0 | 50.0 | 55.0 | 56.0 | 51.0 | 48.0 | 51.0 | 45.0 |
| % Chg Previous Month SAAR | 27.4 | -52.4 | 19,610.6 | -98.9 | -21.5 | 514.0 | -79.2 | 213.8 | 24.1 | -67.4 | -51.7 | 107.0 | -77.7 |
| % Chg Same Month Last Year | -21.9 | -21.7 | 25.9 | -13.8 | -14.0 | 7.5 | -9.1 | -8.3 | -3.4 | 2.0 | 2.1 | 4.1 | -10.0 |
| GF Total Tax Receipts (\$ mil) | 470.9 | 459.6 | 628.9 | 530.4 | 531.1 | 676.1 | 583.1 | 462.6 | 509.3 | 721.1 | 479.5 | 633.7 | 519.1 |
| % Chg Same Month Last Year | 8.2 | -5.9 | -4.1 | -7.1 | 0.7 | 5.3 | -8.2 | 10.2 | 16.3 | 3.5 | 15.1 | 2.6 | 10.2 |
| GF Sales & Use Receipts (\$ mil) | 208.2 | 197.3 | 200.4 | 213.3 | 199.0 | 207.9 | 249.5 | 164.0 | 185.0 | 217.5 | 205.6 | 199.7 | 226.1 |
| % Chg Same Month Last Year | 3.2 | -14.7 | -0.4 | -1.9 | 5.3 | 8.0 | 6.9 | 8.9 | 11.7 | 8.9 | 8.1 | 4.2 | 8.6 |
| GF Income Tax Receipts (\$ mil) | 206.6 | 224.2 | 273.0 | 228.1 | 224.0 | 247.6 | 207.2 | 217.3 | 142.0 | 366.6 | 189.6 | 270.2 | 224.2 |
| % Chg Same Month Last Year | 10.1 | 10.0 | -2.2 | -4.0 | 3.2 | 8.6 | -28.8 | 6.1 | 21.4 | 3.4 | 19.8 | 0.8 | 8.5 |

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

| | 2004 | | | | | | | | | | | | |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL |
| US Leading Index (1982=100) | 112.8 | 113.2 | 113.3 | 113.9 | 114.2 | 114.5 | 114.9 | 114.9 | 115.8 | 115.9 | 116.5 | 116.4 | 116.1 |
| % Chg Previous Month SAAR | 8.9 | 4.3 | 1.1 | 6.5 | 3.2 | 3.2 | 4.3 | 4.3 | 9.8 | 1.0 | 6.4 | -1.0 | -3.0 |
| % Chg Same Month Last Year | 1.6 | 2.2 | 2.7 | 3.3 | 2.9 | 3.1 | 3.5 | 3.5 | 4.9 | 4.9 | 4.4 | 3.9 | 2.9 |
| US Coincident Index (1992=100) | 114.7 | 114.7 | 114.9 | 115.2 | 115.6 | 115.8 | 116.0 | 116.0 | 116.8 | 117.1 | 117.4 | 117.4 | 117.6 |
| % Chg Previous Month SAAR | 3.2 | 0.0 | 2.1 | 3.2 | 4.2 | 2.1 | 2.1 | 2.1 | 5.3 | 3.1 | 3.1 | 0.0 | 2.1 |
| % Chg Same Month Last Year | 0.3 | 0.3 | 0.5 | 0.8 | 1.0 | 1.4 | 1.4 | 1.4 | 2.3 | 2.6 | 2.7 | 2.6 | 2.5 |
| US Nonag Employment (Mil.) | 129.8 | 129.8 | 129.9 | 129.9 | 130.0 | 130.0 | 130.2 | 130.2 | 130.6 | 131.0 | 131.2 | 131.3 | 131.3 |
| % Chg Previous Month SAAR | -0.4 | -0.2 | 0.6 | 0.8 | 0.8 | 0.1 | 1.5 | 1.5 | 3.3 | 3.0 | 1.9 | 0.9 | 0.7 |
| % Chg Same Month Last Year | -0.4 | -0.4 | -0.3 | -0.3 | -0.2 | 0.0 | 0.0 | 0.0 | 0.5 | 0.8 | 1.0 | 1.1 | 1.2 |
| US Unemployment Rate (%) | 6.2 | 6.1 | 6.1 | 6.0 | 5.9 | 5.7 | 5.6 | 5.6 | 5.7 | 5.6 | 5.6 | 5.6 | 5.5 |
| US Initial Claims for UI (000s) | 399.5 | 400.4 | 399.5 | 382.2 | 368.7 | 362.5 | 355.3 | 355.3 | 340.4 | 343.6 | 341.3 | 336.0 | 343.6 |
| % Chg Previous Month SAAR | -43.4 | 2.7 | -2.7 | -41.2 | -35.0 | -18.4 | -21.4 | -21.4 | -40.6 | 11.9 | -7.7 | -17.1 | 30.8 |
| % Chg Same Month Last Year | 3.9 | 1.2 | -3.5 | -7.3 | -6.4 | -13.1 | -10.1 | -10.1 | -19.0 | -21.0 | -19.4 | -19.8 | -14.0 |
| US Industrial Production Index | 110.8 | 110.9 | 111.5 | 111.8 | 112.9 | 113.1 | 113.8 | 113.8 | 114.7 | 115.3 | 116.2 | 115.8 | 116.5 |
| % Chg Previous Month SAAR | 9.6 | 0.3 | 7.1 | 3.1 | 12.3 | 2.9 | 7.3 | 7.3 | -1.1 | 6.6 | 10.4 | -4.5 | 7.6 |
| % Chg Same Month Last Year | -0.6 | -0.6 | 0.1 | 0.7 | 1.5 | 2.3 | 2.4 | 2.4 | 3.5 | 4.7 | 5.6 | 5.3 | 5.1 |
| US Pers. Inc. Less Trans. (bil 92\$) | 7,430.0 | 7,437.9 | 7,451.6 | 7,488.2 | 7,542.8 | 7,550.6 | 7,537.5 | 7,549.0 | 7,558.0 | 7,592.7 | 7,604.9 | 7,603.7 | 7,627.3 |
| % Chg Previous Month SAAR | 2.9 | 1.3 | 2.2 | 6.1 | 9.1 | 1.2 | -2.1 | 1.8 | 1.4 | 5.7 | 1.9 | -0.2 | 3.8 |
| % Chg Same Month Last Year | 1.2 | 1.6 | 2.0 | 2.3 | 3.1 | 3.4 | 3.1 | 3.1 | 3.2 | 3.4 | 2.9 | 2.6 | 2.7 |
| CPI, All Urban (1982-84=100) | 183.8 | 184.5 | 185.1 | 184.9 | 184.6 | 184.9 | 185.8 | 186.3 | 187.2 | 187.6 | 188.8 | 189.4 | 189.3 |
| % Chg Previous Month SAAR | 2.0 | 4.7 | 4.0 | -1.3 | -1.9 | 2.0 | 6.0 | 3.3 | 6.0 | 2.6 | 8.0 | 3.9 | -0.6 |
| % Chg Same Month Last Year | 2.1 | 2.2 | 2.3 | 2.0 | 1.8 | 1.8 | 2.0 | 1.7 | 1.7 | 2.3 | 3.0 | 3.2 | 3.0 |
| US Retail Sales (bil 84\$) | 315.1 | 319.6 | 317.5 | 318.1 | 321.8 | 322.3 | 323.9 | 327.0 | 333.8 | 331.1 | 335.9 | 333.5 | 336.1 |
| % Chg Previous Month SAAR | 11.3 | 18.2 | -7.6 | 2.3 | 15.0 | 2.0 | 6.0 | 12.0 | 28.1 | -9.2 | 18.8 | -8.2 | 9.7 |
| % Chg Same Month Last Year | 5.2 | 6.3 | 7.0 | 6.6 | 7.3 | 6.4 | 6.3 | 8.5 | 8.6 | 7.5 | 9.3 | 6.8 | 6.7 |
| Manufacturing & Trade Sales (000s) | 877.1 | 873.0 | 879.0 | 883.0 | 888.5 | 895.2 | 894.4 | 898.8 | 921.9 | 916.6 | 916.8 | 918.8 | *918.8 |
| % Chg Previous Month SAAR | 18.8 | -5.4 | 8.6 | 5.6 | 7.7 | 9.4 | -1.0 | 6.1 | 35.6 | -6.7 | 0.2 | 2.7 | 0.1 |
| % Chg Same Month Last Year | 2.9 | 2.4 | 4.0 | 4.2 | 4.3 | 5.4 | 4.7 | 7.2 | 8.8 | 8.0 | 7.5 | 6.3 | 4.8 |
| US Consumer Expectations (1966=100) | 83.7 | 82.5 | 80.8 | 83.0 | 88.1 | 89.8 | 100.1 | 88.5 | 88.8 | 87.3 | 81.6 | 88.5 | 91.2 |
| % Chg Previous Month AR | -31.7 | -15.9 | -22.1 | 38.0 | 104.5 | 25.8 | 268.0 | -77.2 | 4.1 | -18.5 | -55.5 | 164.9 | 43.4 |
| % Chg Same Month Last Year | 3.3 | 2.4 | 1.1 | 13.5 | 12.2 | 11.1 | 37.5 | 26.6 | 27.6 | 10.1 | -10.7 | 2.4 | 9.0 |
| Ave. Prime Interest Rate (% , NSA) | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.25 |

* ARIMA estimation